

**ALASKA STATE LEGISLATURE**  
**HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**  
Anchorage, Alaska  
October 13, 2021  
10:27 a.m.

**MEMBERS PRESENT**

Representative Ivy Spohnholz, Chair  
Representative Adam Wool (via TEAMS)  
Representative Andy Josephson  
Representative Calvin Schrage  
Representative Andi Story (via TEAMS)  
Representative Mike Prax  
Representative David Eastman

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE BILL NO. 4003

"An Act relating to use of income of the Alaska permanent fund; relating to the amount of the permanent fund dividend; relating to the duties of the commissioner of revenue; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 4009

"An Act relating to the Alaska permanent fund; relating to dividends for state residents; relating to the use of certain state income; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 4010

"An Act relating to use of income of the Alaska permanent fund; relating to the amount of the permanent fund dividend; relating to the duties of the commissioner of revenue; and providing for an effective date."

- HEARD AND HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB4003

SHORT TITLE: PERMANENT FUND DIVIDEND; 25/75 POMV SPLIT

SPONSOR(s): WAYS & MEANS

10/04/21	(H)	READ THE FIRST TIME - REFERRALS
10/04/21	(H)	W&M, FIN
10/13/21	(H)	W&M AT 10:00 AM ANCH LIO DENALI Rm

BILL: HB4009

SHORT TITLE: PERMANENT FUND DIVIDEND; ROYALTIES

SPONSOR(s): REPRESENTATIVE(s) HOPKINS

10/12/21	(H)	READ THE FIRST TIME - REFERRALS
10/12/21	(H)	W&M, FIN
10/13/21	(H)	W&M AT 10:00 AM ANCH LIO DENALI Rm

BILL: HB4010

SHORT TITLE: PERMANENT FUND DIVIDEND; POMV SPLIT

SPONSOR(s): REPRESENTATIVE(s) MCCARTY

10/12/21	(H)	READ THE FIRST TIME - REFERRALS
10/12/21	(H)	W&M, FIN
10/13/21	(H)	W&M AT 10:00 AM ANCH LIO DENALI Rm

#### **WITNESS REGISTER**

MEGAN HOLLAND, Staff  
Representative Ivy Spohnholz  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented a sectional analysis of HB 4003 on behalf of Representative Spohnholz.

CONOR BELL, Fiscal Analyst  
Legislative Finance Division  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions during the hearing on HB 4003; answered questions during the hearing on HB 4009.

REP HOPKINS  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Introduced HB 4009, as the prime sponsor.

JOE HARDENBROOK, Staff  
Representative Grier Hopkins  
Alaska State Legislature

Juneau, Alaska

**POSITION STATEMENT:** Presented a PowerPoint presentation, titled "HB 4009; A New Vision for Alaska Dividends," on behalf of Representative Hopkins, prime sponsor.

REPRESENTATIVE KEN MCCARTY

Alaska State Legislature

Juneau, Alaska

**POSITION STATEMENT:** Introduced HB 4010, as the prime sponsor.

## **ACTION NARRATIVE**

[10:27:50 AM](#)

**CHAIR IVY SPOHNHOLZ** called the House Special Committee on Ways and Means meeting to order at 10:27 a.m. Representatives Josephson, Wool (via TEAMS), Story (via TEAMS), Eastman (via teleconference), Prax (via teleconference), and Spohnholz were present at the call to order. Representative Schrage arrived as the meeting was in progress. Also present was Representative Ortiz (via teleconference).

### **HB4003-PERMANENT FUND DIVIDEND; 25/75 POMV SPLIT**

[10:29:19 AM](#)

CHAIR SPOHNHOLZ announced that the first order of business would be HOUSE BILL NO. 4003, "An Act relating to use of income of the Alaska permanent fund; relating to the amount of the permanent fund dividend; relating to the duties of the commissioner of revenue; and providing for an effective date."

[10:29:39 AM](#)

CHAIR SPOHNHOLZ introduced HB 4003, on behalf of the House Special Committee on Ways and Means. She provided a PowerPoint presentation, titled "HB 4003: Updated Permanent Fund POMV Split 25%/75%" [hard copy included in the committee packet]. On slide 2, she summarized the main elements of the proposed fiscal plans in front of the legislature.

[10:30:46 AM](#)

CHAIR SPOHNHOLZ turned to slide 3, which read as follows [original punctuation provided]:

## HB 4003: Updates the Dividend Formula

Rewrite the dividend formula as follows:

The 5% Percent of Market Draw from the Permanent Fund  
will be split as follows:

25% to dividends

75% all else

CHAIR SPOHNHOLZ continued to slide 4, which outlined the impact that HB 4003 would have on the budget and the permanent fund dividend (PFD). She noted that the proposed legislation would produce a dividend of \$1,248 in FY 23, increasing to \$1,575 in FY 28. She advanced to slide 5, which reviewed the projected deficits of the various split formulas. She explained the HB 4003 was designed to reduce cuts and/or taxes that would be required to balance the budget.

[10:33:10 AM](#)

REPRESENTATIVE PRAX inquired about the impact that HB 4003 would have on the Alaska Mental Health Trust Authority fund. He requested a sectional analysis of the bill.

[10:34:03 AM](#)

MEGAN HOLLAND, Staff, Representative Ivy Spohnholz, Alaska State Legislature, on behalf of Representative Spohnholz, presented a sectional analysis of HB 4003 [included in the committee packet], which read as follows [original punctuation provided]:

Section 1: Amends AS 14.17.300 adding new language allowing the foundation formula for public education to be funded through a percentage of the POMV draw. Clarifies that in the case that the percentage of the POMV is not sufficient, foundation funding may be provided by the general fund.

Section 2: Amends AS 37.13.140, clarifying that the amount available for appropriation may not exceed the balance of the earnings reserve account. Repeals the old formula for calculating PFDs.

Section 3: Amends AS 37.13.145(b) to allow appropriations from the earnings reserve account in accordance with AS 37.13.140(b), (the POMV statute), as follows: 25% to the dividend fund under AS

43.23.045 and 75% to the general fund. Of the 75% distributed to the general fund, no less than 50% may go to the public education fund for state aid to school districts to satisfy the foundation formula.

Section 4: Amends AS 37.13.145(c) to clarify that an appropriation is required to move funds from the earnings reserve account to the principal of the permanent fund for purposes of inflation proofing.

Section 5: Amends AS 37.13.145(d) to stipulate funds associated with the Amerada Hess settlement are not included in the calculation of the percent of market value under AS 37.13.140(b).

Section 6: Adds a new subsection that states, of the 75% distributed to the general fund, no less than 50% may go to the public education fund for state aid to school districts to satisfy the foundation formula. Additionally, this section provides that if this percentage of the POMV draw does not satisfy the foundation formula, the remaining funds may come from the general fund. And, if it exceeds the formula, the excess may be distributed according to the foundation formula.

Section 7: Amends AS 37.13.300(c) to specify that income from the mental health trust fund is not included in the calculation of the percent of market value under AS 37.13.140(b).

Section 8: Amends AS 37.14.031(c) to require the Alaska Permanent Fund Corporation calculate the net income of the mental health trust fund annually on the last day of the fiscal year, excluding any unrealized gains or losses.

Section 9: Amends AS 43.23.025(a) to clarify that funds must be appropriated to the dividend fund, rather than transferred as current statute provides.

Section 10: Repeals AS 37.13.145(e) and (f). These sections restricted to appropriations from the earnings reserve account to the general fund to not more than was available for appropriation. Similar language is now found in Section 2 of this bill.

Section 11: Provides an effective date of July 1, 2022.

CHAIR SPOHNHOLZ asked whether Representative Prax had a question about Section 5.

[10:36:44 AM](#)

REPRESENTATIVE PRAX opined that it wasn't necessary to make any changes to the Alaska Mental Health Trust Authority fund. He asked why that was being proposed in the bill.

CHAIR SPOHNHOLZ explained that Alaska Permanent Fund Corporation (APFC) managed the Alaska Mental Health Trust Authority's investments. For the purposes of the proposed legislation, she believed that it was not necessary to include Alaska Mental Health Trust Authority funds in the dividend calculation.

[10:38:02 AM](#)

REPRESENTATIVE STORY asked how much money would come from the education tax.

CHAIR SPOHNHOLZ returned to slide 2 and reported that HB 189, the employment tax for education, would produce \$65 million in FY 23 and FY 24 and \$66 million in the subsequent three fiscal years (FY 25 through FY 27).

REPRESENTATIVE STORY sought clarification on the base student allocation (BSA) increase.

[10:40:28 AM](#)

CONOR BELL, Fiscal Analyst, Legislative Finance Division, offered to follow up on the requested information.

[10:40:55 AM](#)

CHAIR SPOHNHOLZ announced that HB 4003 was held over.

**HB4009-PERMANENT FUND DIVIDEND; ROYALTIES**

[10:41:03 AM](#)

CHAIR SPOHNHOLZ announced that the next order of business would be HOUSE BILL NO. 4009, "An Act relating to the Alaska permanent fund; relating to dividends for state residents; relating to the

use of certain state income; and providing for an effective date."

[10:41:59 AM](#)

REP HOPKINS, Alaska State Legislature, prime sponsor, introduced HB 4009. He paraphrased the sponsor statement [included in the committee packet], which read as follows [original punctuation provided]:

Alaskans are beneficiaries of the foresight of our state's founders, who ensured that state-owned resources would be managed for the maximum benefit of all Alaskans (Article VIII Section 2). Unique among all states, Alaska's constitution creates communal ownership of state resources - what former Governor Wally Hickel called "the Owner State."

Following statehood and the discovery of Alaska's North Slope oil reserves, Alaska's political leaders and voters created the Alaska Permanent Fund to, in the words of Governor Hammond "transform oil wells pumping oil for a finite period into money wells pumping money for infinity." Since 1982, Alaskans have received dividend payments from the State of Alaska.

With a stepped four-year approach, HB 4009 crafts a new dividend formula, where Permanent Fund earnings AND mineral revenues from oil and gas are used to calculate dividend payments. Starting in FY 2023, 35 percent of Oil and Gas Royalties, Rents and Bonuses (OGRRB) would be combined with 10 percent of the total Percent of Market Value (POMV) draw for the payment of dividends. The amount of the state's OGRRB and POMV contribution to the dividend fund would grow by five percent annually until FY 2026, when the final formula of 50 percent of OGRRB and 25% of the POMV takes effect.

HB 4009 creates a new partnership and vision for Alaska's dividend program. By combining the earnings of the Permanent Fund with a percentage of Alaska's oil and gas mineral revenues, Alaskans will benefit from a diversified dividend revenue stream, shielding the dividend from market downturns and commodity price fluctuations. Additionally, Alaskans will see a direct benefit from the continued development of resources on

state and federal land, renewing the founders' vision of an owner state.

[10:46:03 AM](#)

JOE HARDENBROOK, Staff, Representative Grier Hopkins, Alaska State Legislature, on behalf of Representative Hopkins, prime sponsor, provided a brief sectional analysis of HB 4009. Section 1 deleted the old PFD formula. Section 2 created a new formula for the fund's earning appropriations for the dividend program. Sections 3-5 contained conforming changes. Section 6 excluded the Alaska Mental Health Trust Authority from the calculation of the fund's market value. Sections 7-9 contained conforming changes. Section 10 provided the new formula for oil and gas royalty revenue and bonus appropriations to fund the dividend program. Section 11 was the effective date.

[10:48:15 AM](#)

MR. HARDENBROOK directed attention to a PowerPoint presentation, titled "HB 4009; A New Vision for Alaska Dividends" [hard copy included in the committee packet]. He began on slide 2, indicating that the proposed legislation would grow and diversify the revenue streams for Alaska's dividends. Rather than solely relying on market returns from the Alaska Permanent Fund, future dividends would include a percentage of state royalties, rents, and bonuses on the development of its oil and gas resources. He turned to slide 3, which read as follows [original punctuation provided]:

New Formula for Dividend Calculation:

- FY23: 10% POMV Draw + 35% of Oil & Gas Royalties/Rents/Bonuses (OGRRB)
- FY24: 15% POMV Draw + 40% OGRRB
- FY25: 20% POMV Draw + 45% OGRRB
- FY26: 20% POMV Draw + 50% OGRRB
  - o 25%+50% Formula in Effect from FY26 Onward

[10:50:30 AM](#)

MR. HARDENBROOK advanced to slide 4, which read as follows [original punctuation provided]:

What Wouldn't Change:

- Permanent Fund Corporation
- Percent of Market Value Statute



- Dividend Tied to Performance of Permanent Fund

[10:50:54 AM](#)

MR. HARDENBROOK progressed to slide 5, which read as follows [original punctuation provided]:

What Would Change:

- Alaskans Receive Direct Share of Oil and Gas Revenue
  - Federal and State Resources
- Dividend Funds Diversified under New Formula
- Dividends Calculated on Fund Returns & Resource Development

[10:51:24 AM](#)

MR. HARDENBROOK continued to slide 6, which highlighted the funds available for paying dividends under HB 4009. Slide 7 outlined the projected dividend amounts under the proposed plan, starting at \$1,092 in FY 23. He concluded on slide 8, noting that HB 4009 in its current form would result in a deficit in future years, which could be addressed in two ways: firstly, through maintaining the proposed blended revenue stream of oil and gas royalties and fund returns, while tweaking the amount in the formula; secondly, through new revenue. He invited Mr. Bell to provide an explanation of the fiscal models on slide 8.

[10:54:32 AM](#)

MR. BELL explained that the fiscal model was showing the impact of the proposed legislation using assumptions based on the enacted capital budget and operating budget.

CHAIR SPOHNHOLZ directed attention to the bottom left chart on slide 8 and asked whether the unplanned ERA draw was in addition to the surplus or deficit.

MR. BELL said the draw was part of the surplus or deficit.

CHAIR SPOHNHOLZ sought to confirm that the CBR would be drawn from to fund the deficit first, followed by an ERA draw to maintain the minimum balance of \$500 million in the CBR. She estimated that in FY 22, there would be a (indisc.) of \$204 million that would grow up to \$552 million in FY 26 and decline again to \$234 million in FY 30.

MR. BELL confirmed that her understanding was accurate.

[10:58:25 AM](#)

REPRESENTATIVE JOSEPHSON asked whether the incremental increase was designed to provide the legislature with a timeframe to adopt new revenue.

REPRESENTATIVE HOPKINS answered yes.

[10:59:29 AM](#)

REPRESENTATIVE WOOL observed that the modeling on slide 8 showed a deficit in FY 22 with a CBR draw. He asked why that was depicted.

MR. BELL believed that Representative Wool was referring to the ERA draw in FY 22. He explained that LFD's modeling did not include any of the federal revenue replacement.

REPRESENTATIVE WOOL applauded the foundational formula in the proposed legislation; nonetheless, he expressed concern about the step-up portion of the plan and the overdraw that would result. Further, he asked whether there was any research that showed a benefit to paying out large dividends, as opposed to putting that money towards the BSA, education, and other state services.

REPRESENTATIVE HOPKINS said the bill would need to be part of a package that included new revenue, noting that he did not support an unplanned overdraw from the ERA. He believed that with a full fiscal plan, a balance could be struck between revenue, the economy, and the dividend. He expressed his hope that the formula in HB 4009 would drive resource development that would bring in new revenue to support the budget. He maintained that the proposed legislation would allow for a fluid dividend while protecting the POMV draw.

[11:05:25 AM](#)

REPRESENTATIVE WOOL agreed that this plan would require new revenue to avoid the overdraws. He said he supported the initial formula in the bill but was reluctant to increase it, because he believed new revenue could be used in a better way.

REPRESENTATIVE HOPKINS credited [HB 37] from Representative Wool for the formula proposed in HB 4009.

11:07:01 AM

REPRESENTATIVE STORY sought to clarify how the plan would allow the state to maintain essential public services and provide for a capital budget.

REPRESENTATIVE HOPKINS directed attention to slide 8, which highlighted the size of the capital budget under this proposal. He acknowledged that the dividend formula would create a deficit, so essential services would have to be identified, as well as new revenue and cuts to maintain a balanced budget.

MR. HARDENBROOK noted that the numbers in the model included inflationary increases for the FY 22 state budget.

CHAIR SPOHNHOLZ added that it did not, however, include strategic investments, such as increases to the BSA, as referenced by Representative Story.

REPRESENTATIVE HOPKINS, in response to a question from Representative Story, confirmed that oil prices were unpredictable. He reasoned that the dividend formula proposed in HB 4009 reflected the needs of Alaskans, such as high energy costs.

11:11:50 AM

REPRESENTATIVE HOPKINS, in response to a question from Representative Schrage, shared his belief that the bill would shield from market downturns by balancing oil and gas revenue and permanent fund earnings. He acknowledged that the proposal would come with a new set of risks and discussed Alaskans retaining ownership of state resources and sharing in both the high and low times.

REPRESENTATIVE HOPKINS, in response to a question from Representative Schrage, recalled times throughout recent history when the economy was thriving while oil prices were low and vice versa.

11:16:17 AM

REPRESENTATIVE HOPKINS, in response to a question from Representative Josephson, confirmed that the purple line labeled "current scenario" [slide 8, top right] represented the proposed legislation.

REPRESENTATIVE JOSEPHSON asked whether there was a scenario in which the royalty contribution in HB 4009 would result in a dividend equal to the 1982 statutory formula.

REPRESENTATIVE HOPKINS answered yes, but it could also be substantially lower depending on the price of oil.

[11:17:24 AM](#)

REPRESENTATIVE HOPKINS, in response to Representative Josephson, confirmed that in all likelihood, the dividend would not be \$2,800 [despite projections indicating that it would reach that by FY 30] due to the difficulty in predicting oil prices. He noted that according to the forecast, oil was predicted to be \$65 per barrel going forward.

CHAIR SPOHNHOLZ stressed the volatility of oil as a revenue source.

[11:18:55 AM](#)

REPRESENTATIVE EASTMAN asked whether any analysis had been conducted on how reduced dividend years would impact participation in state services and programs.

REPRESENTATIVE HOPKINS said no specific analysis had been conducted on that topic.

REPRESENTATIVE EASTMAN maintained his belief that such an analysis would be helpful.

REPRESENTATIVE HOPKINS reiterated that the goal of the bill was to create economic incentive for resource development and job creation to grow Alaska's economy.

CHAIR SPOHNHOLZ recalled hearing from the Institute of Taxation and Economic Policy (ITEP) and others on the impact of dividend cuts.

[11:22:16 AM](#)

REPRESENTATIVE PRAX didn't recall hearing about the dividend's impact on municipalities. He requested information on how much money was collected from unpaid fines, parking tickets, speeding tickets, etcetera.

[11:23:32 AM](#)

REPRESENTATIVE STORY reminded the committee that an influx of people would be accompanied by their need for services and the necessity to pay for those services.

CHAIR SPOHNHOLZ announced that HB 4009 was held over.

**HB4010-PERMANENT FUND DIVIDEND; POMV SPLIT**

[11:25:23 AM](#)

CHAIR SPOHNHOLZ announced that the final order of business would be HOUSE BILL NO. 4010, "An Act relating to use of income of the Alaska permanent fund; relating to the amount of the permanent fund dividend; relating to the duties of the commissioner of revenue; and providing for an effective date."

[11:25:54 AM](#)

REPRESENTATIVE KEN MCCARTY, Alaska State Legislature, prime sponsor, introduced HB 4010. He paraphrased the sponsor statement [included in the committee packet], which read as follows [original punctuation provided]:

House Bill 4010 would provide an established formula for the appropriate of annual permanent fund dividend for Alaskans.

From 1982 until 2016 the annual appropriate of permanent fund dividends were established and implemented per Statute. In 2016 the Legislature and an uncontested governor veto changed the Statute and the allocation formula resulting in an undetermined dividend appropriation. House Bill 4010 will integrate the POMV formula consideration of Statute with an established percentage formula appropriation for both the state and dividend for Alaskans. The purposed formula for consideration is 65% state and 35% Alaskan dividend.

In addition to the 65% formula for the state that at least 20% of that must be used for Capital Projects. The state's expenses involve operations and capital projects. Over the years the Capital projects have not been attended to for one reason or another, which at this time the state is over 2 billion dollars behind

in Capital project repairs. The inclusion of the 20% will not only secure the importance of attending to Capital Projects but also avail funds for infrastructure, promote businesses, avail jobs, secure and improve roads, bridges, buildings, and school facilities.

The origin of the Permanent Fund Dividend is in recognition of individual residents / stakeholders of Alaska. The appropriation of the funds are done with equality. No social economic, age, or political preference determine the dividend. Simply, being a resident of Alaska under law qualifies an annual dividend.

Since the 2016 change to the Permanent Fund Dividend formula and inclusion of the POMV that the people of Alaska have greatly questioned the intent of its state government. Alaskans have made statements with themes that the state is disenfranchised of its people / stakeholders by depriving them of a reliable annual dividend. By approving House Bill 4010 it will make a resounding statement that residents of Alaska are valued stakeholders of this great state and will be honored with a reliable annual dividend.

CHAIR SPOHNHOLZ clarified that the 1982 statute had not been repealed yet.

[11:28:05 AM](#)

REPRESENTATIVE MCCARTY presented a sectional analysis for HB 4010 [included in the committee packet], which read [original punctuation provided]:

Section 1

AS 37.13.140 Income and annual computed formula.

(a) Maintain the origin of income source according to AS 37.13.145. Deletes the language describing the distribution formula equals 21 percent of the net income. The formula has resulted in an incongruent calculation with (b).

(b) Inserting current language to affirm that appropriation may not exceed the balance in the earnings reserve account. The computed annual calculation remains the same.

## Section 2

AS 37.13.145 (b) Appropriation formula.

Adds the new appropriation formula of 35% for the dividend and 65% toward the state. It also describes the state appropriation of 65% which 20% of it must be used toward Capital Projects.

## Section 3

AS 37.13.145(c) Appropriation from the Earnings Reserve Account

Changes the language from transfer to appropriation and legislature role in the appropriation process.

## Section 4

AS 37.13.145(d) Appropriate in consideration of the State v. Amerada Hess decision

Changing language to be congruent from transfer to appropriation. There is no change to the State v Amerada Hess judgment. Delete AS 37.13.145(e) as it is amended and addressed in Section 1 of AS 37.13.140(b).

## Section 5

AS 37.13.300(c) Mental Health Trust funds

Change language according to congruency of other changes but does not change the autonomy of the mental health trust funds which is not to be calculated in the Permanent Fund appropriation.

## Section 6

AS 37.14.031(c) Date of annual computation

Inserts language to define the date of the annual computation according to accepted accounting principles, excluding any unrealized gains or losses.

## Section 7

AS 43.23.025(a) Date of determination and announcement of the dividend

Changing language to be congruent from transferred to appropriated. The amendment is to continue congruency of language changes to recognize the appropriation process.

## Section 8

AS 37.13.145(e) and 37.13.145(f) Repeal of limitation of the appropriation from Earnings Reserve

Delete (e) and (f) as the language is already addressing in other changes within the bill.

Section 9  
Effective Date  
Provides for July 1, 2022 effective date.

11:31:00 AM

REPRESENTATIVE MCCARTY introduced a PowerPoint presentation, titled "HB 4010" [hard copy included in the committee packet]. He began on slide 2, which read as follows [original punctuation provided]:

Since 1982 the State of Alaska has recognized the resident / stakeholders through annual dividends from the Alaska Permanent Fund. Unlike no other state, the equitable nature of dividends for all residents, according to law, has been bestowed upon and not entitled to Alaskans.

REPRESENTATIVE MCCARTY continued to slide 3, which read as follows [original punctuation provided]:

The Alaskan Dividend Tradition has long been fulfilled through an annual percent of the viable appropriated distribution base of the Permanent Fund realized earnings.

REPRESENTATIVE MCCARTY turned to slide 4, which read as follows [original punctuation provided]:

In 2016 this long Alaskan tradition was altered. A new appropriation method was placed in Statute, which has resulted in confusion or contradiction of existing Statute and the appearance of disenfranchising Alaskans of their stakeholder investment dividend.

REPRESENTATIVE MCCARTY advanced to slide 5, which read as follows [original punctuation provided]:

The intent of HB 4010 is to make clear once again the established annual percentage formula for both the Permanent Fund Dividend for Alaskans and the percentage of budget revenue for the state government to the benefit of Alaskans.

REPRESENTATIVE MCCARTY proceeded to slide 6, which read as follows [original punctuation provided]:



P.O.M.V.

The Percent of Market Value calculation based on the growth of the Permanent Fund was changed into Statute in 2019. At a 5% annual draw on the Permanent Fund this allows for prudent distribution and continued growth within the fund into the future.

REPRESENTATIVE MCCARTY continued to slide 7, which read as follows [original punctuation provided]:

The question is what should the annual distribution look like from the 5% POMV draw that does not result in deficiency elsewhere?

REPRESENTATIVE MCCARTY proceeded to review the governor's 50/50 plan, highlighting the advantages and disadvantages (slide 9) and the fiscal modeling (slides 10-11). On slide 12, he pointed out that moneys from both the CBR and the SBR had been used historically for deficit spending.

[11:35:05 AM](#)

REPRESENTATIVE MCCARTY outlined HB 4010 on slide 13, which read as follows [original punctuation provided]:

HB 4010

A Permanent Fund Appropriation Formula that supports Alaskans in many ways!

35 % -Dividend Amount for Alaskans  
20 % -Capital Projects to benefit Alaskans  
45 % -Government Operations to support Alaskans

REPRESENTATIVE MCCARTY continued to slide 14, which read as follows [original punctuation provided]:

PREMISE

Equitable formula that gives Alaskans "More Bang for the Bucks!"

The McCarty Plan

- 5% of POMV draw with a 35/65 Percent Split
- 35% to PFD

- 65% to State with at least 20% allocated to Capital Budget Projects
- Capital Projects assurance will result in jobs and projects toward maintenances, improvements, and infrastructure for roads, airports, A.M.H., bridges, buildings, fire support, school structures, etc.

[11:36:07 AM](#)

REPRESENTATIVE MCCARTY highlighted the perceived advantages and disadvantages of HB 4010 on slide 15, which read as follows [original punctuation provided]:

ADVANTAGE

Seeks to establish a distribution plan that is dependable & sustainable into the future

Equitable for both the people's government and individual Alaskans

Alaskans benefit from a dividend as well as jobs and services from Capital Projects

Fiscally sustainable that does not require excessive revenue expansion / taxation

DISADVANTAGE

Not a 50 / 50 Plan

Not a 25 / 75 Plan

Revenue continues through resource development and free enterprise industry rather taxation

REPRESENTATIVE MCCARTY discussed the modeling on slide 16, noting that LFD projected revenue with no liability reduction until 2028 and surpluses in 2030. Additionally, FY 21 to FY 24 showed a deficit with surplus growth after FY 25.

[11:38:59 AM](#)

REPRESENTATIVE MCCARTY addressed appropriations to capital projects on slide 17, which read as follows [original punctuation provided]:

- More Money to Support Jobs for Alaskans
- Boosts the Economy

- Infrastructure for now and into the future

REPRESENTATIVE MCCARTY concluded on slide 18 by reiterating his hope that HB 4010 would provide a more sustainable future for Alaska by implementing a "safety net" and boosting a strong economy.

[11:39:32 AM](#)

REPRESENTATIVE SCHRAGE commended bill sponsor for putting forward a plan. He asked why this plan would be favorable to a 75/25 split. He acknowledged the deficits that would need to be addressed under this proposal and asked why this would be the appropriate formula for the legislature to move forward with.

REPRESENTATIVE MCCARTY believed that a 65/35 plan would be more balanced than a 75/25 split in terms of fairness to both residents and government services.

[11:42:04 AM](#)

REPRESENTATIVE JOSEPHSON asked whether the proposed legislation would result in substantial cuts to the operating budget.

REPRESENTATIVE MCCARTY claimed that there would not be a deficit and argued that the budget would be balanced under HB 4010.

REPRESENTATIVE JOSEPHSON asked Mr. Bell whether the operating budget would need to be cut without the addition of new revenue if HB 4010 were to pass.

MR. BELL said it was unclear whether the bill sponsor had intended 20 percent of the entire POMV draw would go to the capital budget or if it was 20 percent of 65 percent of the POMV draw. Regardless, it would increase the capital budget either way.

CHAIR SPOHNHOLZ clarified that 20 percent of the overall POMV would go to the capital budget under Representative McCarty's plan. She asked what kind of deficit that would create.

[11:48:17 AM](#)

MR. BELL confirmed that based on DOR's spring forecast, there would be small deficits through FY 30 if the entire amount was appropriated towards the capital budget.

CHAIR SPOHNHOLZ asked what the deficit would be in FY 23.

MR. BELL estimated a deficit of slightly over \$1 billion.

11:49:20 AM

REPRESENTATIVE JOSEPHSON pointed out that slide 16, which provided modeling of HB 4010, showed the capital budget from FY 22 to FY 30 using assumptions from the FY 22 enacted budget, as opposed to modeling the proposed 20 percent of 65 percent of the POMV draw.

MR. BELL confirmed. He said the fiscal model on slide 16 did not use the 20 percent minimum for the capital budget assumption, which was proposed in HB 4010. Instead, it modeled the capital budget assumptions that grow with inflation based on the enacted budget.

CHAIR SPOHNHOLZ said that's an important distinction.

REPRESENTATIVE JOSEPHSON sought to confirm that slide 16 did not accurately reflect the bill.

MR. BELL said it did not include that aspect of the bill. He offered to follow up with an assumption that increased the capital budget to conform with the language in the bill.

11:51:08 AM

CHAIR SPOHNHOLZ shared her understanding that HB 4010 would create a fairly significant fiscal gap. If the bill were to become law, she asked the sponsor how he would recommend balancing the budget.

REPRESENTATIVE MCCARTY believed that investments in infrastructure could lead to an increase in revenue.

CHAIR SPOHNHOLZ asked how state revenue would increase based on capital spending.

REPRESENTATIVE MCCARTY shared an example from the North Slope.

CHAIR SPOHNHOLZ sought to confirm that Representative McCarty was suggesting that the legislature increase oil industry subsidies to increase state revenue.

REPRESENTATIVE MCCARTY responded, "Well, I suggest looking into all the different things that's increasing the infrastructure within the state." He discussed ports in Alaska and potentially moving more commodities through them.

[11:55:07 AM](#)

CHAIR SPOHNHOLZ pointed out that economic development would take a long time to produce new revenue; further, she opined that there wasn't a clear relationship between short-term capital spending and short-term revenue. She addressed the billion-dollar deficit beginning in FY 23 under this proposal, adding that there would need to be a billion dollars in net cuts or new revenue sources to balance the budget. She encouraged the sponsor to consider ways to balance the budget.

REPRESENTATIVE MCCARTY believed that the dividend formula in HB 4010 would boost the economy.

[11:58:18 AM](#)

REPRESENTATIVE SCHRAGE appreciated the idea of increasing the capital budget and the argument that government spending could facilitate the economy. Nonetheless, he expressed concern that Alaska's revenue was highly dependent on oil and gas revenue. Additionally, he pointed out that there was no indication of a correlation between private industry success and an increase in state revenue.

CHAIR SPOHNHOLZ appreciated the consensus from the fiscal policy working group that different elements had to come together to create a successful fiscal plan, such as broad-based revenue, a robust dividend, modest cuts to the budget from systemic reforms, and an updated spending cap.

[HB 4010 was held over.]

[12:02:48 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 12:02 p.m.